

## ALTERNATIVE FORECASTS

DRI\*WEFA has assigned a 55% probability of occurrence to its October 2002 baseline forecast of the U.S. economy. The major features of this forecast includes:

- Real GDP increases 2.4% in 2002, 3.0% in 2003, 4.0% in 2004, and 3.3% in 2005;
- U.S. nonfarm employment declines 0.8% in 2002, advances 1.4% in 2003, 2.6% in 2004, and 1.7% in 2005;
- the annual U.S. civilian unemployment rate peaks at 5.9% in 2003 and falls gradually to 5.0% by 2005;
- the consumer confidence index bounces near 90 through the forecast period;
- consumer inflation is 1.7% in 2002 and averages 2.9% thereafter;
- the federal government runs small annual deficits through 2005;
- and the real trade deficit swells to \$530.6 billion by 2005.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in opposite directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. One of the biggest concerns is the economy will slip into a double-dip recession. DRI\*WEFA has been steadfast in its opinion this will not occur. While in the Pessimistic Alternative economic growth is slower than in the baseline case, the economy does not decline. Both alternatives and their impacts on the Idaho economy are discussed below.

### OPTIMISTIC SCENARIO

The major difference between the alternative forecasts is the amount of confidence consumers and business have in the economy. The *Optimistic Scenario* explores the consequences of consumer and business confidence that is elevated above their baseline counterparts. It has been assigned a 15% probability of occurrence. Consumer and business confidence has been on the ropes recently thanks to a combination of factors. Faith in the economy has been pummeled by lay off announcements, the stock market decline, corporate scandals, and threats of war with Iraq. Changes are required to restore confidence.

Fortunately, American institutions are malleable when money is involved. Congress, the Bush administration, the Financial Accounting Standards Board, and Securities and Exchange Commission are all working hard to restore confidence. This scenario assumes their labor bears fruit, and confidence returns sooner than in the baseline case. As a result, real GDP growth returns to its trend faster than in the baseline case. Real GDP advances 2.4% in 2002, 3.9% in 2003, 4.2% in 2004, and 2.8% in 2005. In the baseline case real GDP rises 2.4% in 2002, 3.0% in 2003, 4.0% in 2004, and 3.3% in 2005.

The short-term outlook for Idaho's economy improves as the national recovery arrives ahead of schedule. Idaho nonfarm employment grows faster in this scenario than in the baseline. As a result, there are approximately 3,600 more jobs in 2005 than in the baseline. Of this improvement, about 1,000 jobs are in the goods-producing sector and the remainder is in the services sector. Not surprisingly, Idaho real personal income is also higher in this forecast. By 2005 it is \$33.1 billion compared to the baseline's \$32.9 billion.

**IDAHO ECONOMIC FORECAST**  
**CURRENT AND ALTERNATIVE FORECASTS**  
**OCTOBER 2002**

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
<b>GDP (BILLIONS)</b>															
Current \$	10,082	10,459	11,050	11,815	12,534	10,082	10,461	11,160	11,976	12,632	10,082	10,444	10,872	11,558	12,327
% Ch	2.6%	3.7%	5.7%	6.9%	6.1%	2.6%	3.8%	6.7%	7.3%	5.5%	2.6%	3.6%	4.1%	6.3%	6.7%
1996 Chain-Weighted	9,215	9,431	9,710	10,100	10,429	9,215	9,434	9,800	10,208	10,489	9,215	9,422	9,576	9,949	10,342
% Ch	0.3%	2.4%	3.0%	4.0%	3.3%	0.3%	2.4%	3.9%	4.2%	2.8%	0.3%	2.2%	1.6%	3.9%	3.9%
<b>PERSONAL INCOME - CURR \$</b>															
Idaho (Millions)	32,525	34,009	35,746	37,559	39,624	32,525	34,020	35,920	37,961	39,916	32,525	34,010	35,458	36,856	38,948
% Ch	3.9%	4.6%	5.1%	5.1%	5.5%	3.9%	4.6%	5.6%	5.7%	5.1%	3.9%	4.6%	4.3%	3.9%	5.7%
U.S. (Billions)	8,685	8,960	9,410	9,986	10,593	8,685	8,960	9,469	10,111	10,682	8,685	8,955	9,303	9,759	10,380
% Ch	3.3%	3.2%	5.0%	6.1%	6.1%	3.3%	3.2%	5.7%	6.8%	5.7%	3.3%	3.1%	3.9%	4.9%	6.4%
<b>PERSONAL INCOME - 1996 \$</b>															
Idaho (Millions)	29,686	30,574	31,313	32,020	32,900	29,686	30,595	31,450	32,295	33,091	29,686	30,602	31,127	31,617	32,570
% Ch	1.8%	3.0%	2.4%	2.3%	2.7%	1.8%	3.1%	2.8%	2.7%	2.5%	1.8%	3.1%	1.7%	1.6%	3.0%
U.S. (Billions)	7,927	8,055	8,243	8,513	8,796	7,927	8,058	8,291	8,601	8,856	7,927	8,057	8,167	8,372	8,680
% Ch	1.3%	1.6%	2.3%	3.3%	3.3%	1.3%	1.7%	2.9%	3.7%	3.0%	1.3%	1.6%	1.4%	2.5%	3.7%
<b>TOTAL NONFARM EMPLOYMENT</b>															
Idaho (Thousands)	568.3	562.8	571.2	583.4	597.1	568.3	562.9	573.6	588.5	600.7	568.3	562.9	568.7	577.0	592.6
% Ch	1.6%	-1.0%	1.5%	2.1%	2.4%	1.6%	-0.9%	1.9%	2.6%	2.1%	1.6%	-0.9%	1.0%	1.5%	2.7%
U.S. (Millions)	131.9	130.8	132.6	136.0	138.4	131.9	130.8	133.2	137.1	139.0	131.9	130.8	131.6	134.5	137.3
% Ch	0.2%	-0.8%	1.4%	2.6%	1.7%	0.2%	-0.8%	1.8%	2.9%	1.4%	0.2%	-0.9%	0.7%	2.2%	2.0%
<b>GOODS PRODUCING SECTOR</b>															
Idaho (Thousands)	114.6	106.4	105.5	107.8	110.5	114.6	106.4	106.7	110.0	111.5	114.6	106.4	104.2	105.5	110.0
% Ch	-1.3%	-7.2%	-0.9%	2.2%	2.6%	-1.3%	-7.1%	0.3%	3.1%	1.4%	-1.3%	-7.2%	-2.1%	1.3%	4.3%
U.S. (Millions)	24.9	23.8	23.6	24.0	24.5	24.9	23.9	23.9	24.6	25.0	24.9	23.8	23.3	23.2	23.9
% Ch	-2.8%	-4.4%	-1.0%	1.5%	2.1%	-2.8%	-4.4%	0.0%	3.2%	1.6%	-2.8%	-4.5%	-2.2%	-0.5%	2.9%
<b>SERVICE PRODUCING SECTOR</b>															
Idaho (Thousands)	453.7	456.4	465.7	475.6	486.6	453.7	456.5	466.9	478.6	489.1	453.7	456.6	464.5	471.6	482.6
% Ch	2.4%	0.6%	2.0%	2.1%	2.3%	2.4%	0.6%	2.3%	2.5%	2.2%	2.4%	0.6%	1.7%	1.6%	2.4%
U.S. (Millions)	107.0	107.0	109.0	112.1	113.9	107.0	107.0	109.3	112.5	114.0	107.0	106.9	108.3	111.3	113.4
% Ch	0.9%	0.0%	1.9%	2.8%	1.6%	0.9%	0.0%	2.2%	2.9%	1.3%	0.9%	0.0%	1.3%	2.8%	1.9%
<b>SELECTED INTEREST RATES</b>															
Federal Funds	3.9%	1.7%	2.1%	3.4%	4.2%	3.9%	1.7%	2.1%	3.4%	4.2%	3.9%	1.7%	1.3%	1.9%	3.0%
Bank Prime	6.9%	4.8%	5.1%	6.4%	7.2%	6.9%	4.8%	5.1%	6.4%	7.2%	6.9%	4.7%	5.1%	4.9%	6.0%
Existing Home Mortgage	7.0%	6.6%	6.4%	6.2%	7.0%	7.0%	6.6%	6.4%	6.2%	6.9%	7.0%	6.6%	6.2%	5.5%	6.6%
<b>INFLATION</b>															
GDP Price Deflator	2.4%	1.3%	2.6%	2.8%	2.7%	2.4%	1.3%	2.7%	3.0%	2.7%	2.4%	1.3%	2.4%	2.3%	2.6%
Personal Cons Deflator	2.0%	1.5%	2.6%	2.7%	2.7%	2.0%	1.5%	2.7%	2.9%	2.6%	2.0%	1.4%	2.5%	2.3%	2.6%
Consumer Price Index	2.8%	1.7%	2.9%	2.9%	2.9%	2.8%	1.7%	2.9%	3.1%	2.9%	2.8%	1.6%	2.7%	2.5%	2.8%

**Forecast Begins the THIRD Quarter of 2002**

## PESSIMISTIC SCENARIO

This scenario has been assigned a 30% probability of occurrence. Again, consumer and business confidence largely drive the U.S. economy. Despite respectable third quarter real GDP growth and ongoing productivity gains, profits elude American businesses. In an effort to improve earnings, companies pare back investment spending and postpone hiring to an even greater extent than in the baseline forecast. The end of the inventory cycle carries the economy through the second half of 2002, but final demand stagnates and consumers grow cautious. Fearful the volatile stock market will drag the economy into another recession, the Federal Reserve lowers the federal funds rate to 1.5% this winter and further to 1.25% in the spring of 2003.

This helps keep the economy afloat, but just barely. The situation never deteriorates into a double-dip recession, largely because of the steady increase in federal spending. After a surge in the first quarter of 2002, real GDP growth hovers in the 0.8-1.5% range through next spring. The unemployment rate rises to 6.5% in the summer of 2003 because most of the growth in output results from productivity gains.

The national economy stumbles in 2003 in this scenario, and so does the Idaho economy. Instead of advancing 1.5% next year, nonfarm employment rises 1.0%. It grows just 1.5% in 2004, compared to the baseline's 2.1% pace. As a result of these two sub-par years, Idaho nonfarm employment in 2005 is about 4,500 less than in the baseline. Idaho real personal income displays a similar pattern. It too grows slower than its baseline counterpart in 2003 and 2004. Although real personal income growth improves in 2005, it is not enough to offset the slow growth in the preceding two years.